

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

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UNITED STATES DEPARTMENT OF JUSTICE

POSTAL RATE AND FEE CHANGES, 1997

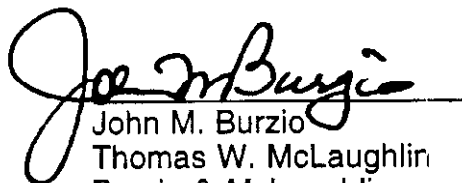
Docket No. R97-1

**RESPONSES OF SATURATION MAIL COALITION WITNESS
HARRY J. BUCKEL TO INTERROGATORIES OF THE ASSOCIATION
OF ALTERNATE POSTAL SYSTEMS (AAPS/SMC-T1-1-19)
AND MOTION TO ACCEPT RESPONSES ONE DAY LATE**

The Saturation Mail Coalition hereby submits the responses of witness Harry Buckel to Association of Alternate Postal Systems interrogatories AAPS/SMC-T1-1-19. The interrogatories are stated verbatim and are followed by the response.

We hereby move that these responses be received one day late. The late filing is due to the delay in receiving the interrogatories (dated January 27, 1998, but received late on January 28th), coupled with Mr. Buckel's other business commitments that necessitated an extra day to complete the responses. These responses have been telecopied today to counsel for AAPS, who has indicated that AAPS does not oppose this motion.

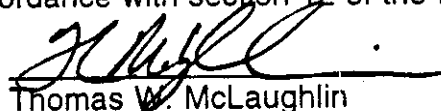
Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have on this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Thomas W. McLaughlin

February 11, 1998

RESPONSES OF SATURATION MAIL COALITION WITNESS HARRY BUCKEL TO
INTERROGATORIES OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS

AAPS/SCM-T1-1. At page 2, you state that you have been involved in forming and organizing the Saturation Mailers Coalition. Please identify the other individuals involved in forming and organizing the Coalition and provide a copy of the Coalition's mission statement or other descriptive material identifying its membership and purposes.

In addition to myself, the other representatives that were directly involved are Pete Gorman of Harte-Hanks, Dick Mandt of The Flyer, Carol Toomey of Action Unlimited, Kam Kamerschen of Advo, Jim Deroy of Advantage Mail Network, Donna Hanbery of AISOP, Gary Webb of Metro Marketing Associates, and Norm Schultz of Mail Marketing Systems. In addition, there were several other representatives who supported the formation of a coalition but were unable to participate directly. The mission of the Coalition is to advocate for and represent the interests of saturation mail. A membership list is attached to my testimony as Appendix A.

AAPS/SCM-T1-2. Of the 36 members of the Coalition, please identify any that predominantly mail low-weight (that is, under the breakpoint) standard mail pieces.

Specific information from individual members is proprietary and not available. However, to the best of my knowledge, all of the Coalition's members predominantly mail pieces that are near or under the breakpoint.

AAPS/SCM-T1-3. At page 4, lines 22-23, you identify a "misperception" that a few large mailers dominate the saturation mail industry. Please provide an estimate of the percentage of saturation mail currently mailed by the single largest mailer, by the five largest mailers, and by the ten largest mailers.

You have not accurately characterized what I said. My statement was that I am aware of the common misperception that the saturation mail industry "consists of only a few large mailers." As I explained in the following two paragraphs of my testimony, the saturation mail industry consists of hundreds of companies of varying sizes that mail a variety of saturation mail publications and programs.

I do not have specific volume information for other saturation mailers. My best estimate is that the single largest saturation mailer accounts for a little over 40% of total saturation volume, the five largest mailers account for about 50%, and the ten largest mailers account for well less than 60%. I would estimate that the hundreds of mailers smaller than the top ten account for more than 4 billion saturation mail pieces annually, comprising more than 40% of total saturation mail volume.

AAPS/SCM-T1-4. Please identify the source of the data found at page 6, lines 23-25, where you refer to "mom and pop" businesses constituting 60 to 80 percent of saturation mail users. Also, is this reference to "users" a reference to those whose advertisements are being mailed or a reference to those that are doing the mailing?

My statement was not confined to "mom and pop" businesses, but also included individual service providers and entrepreneurs. In the context of this statement, the reference to "users" is to those whose advertisements are being mailed.

There is no industry wide "source" for this information. My statement is based on my own experience over many years in the industry working with a number of community papers and shoppers, my knowledge of other saturation mail programs, and my contacts and discussions with others in the industry. For Newport Media's shopper programs, the percentage of small business advertisers is even higher than my 60-80 percent figure. On a typical week, our program includes 8,000 to 12,000 classified advertisers and 3,500 display advertisers (90 percent of which are small businesses), compared to about 300 to 400 insert advertisers (some of which are also relatively small businesses). This is not unique, but is a common characteristic of shoppers.

AAPS/SCM-T1-5. With respect to your reference at page 6, lines 23-25, to "60 to 80 percent of all saturation mail users," is this a reference to a percentage of pieces being mailed or a percentage of weight being mailed?

Neither. It is a reference to the percentage of saturation mail users.

AAPS/SCM-T1-6. At page 8, lines 16-23, you describe Newport Media Inc. You state that four of your five home-delivered shoppers are mailed, and one is delivered by hand. Please identify these shoppers and explain why those mailed are not delivered by hand, and why that delivered by hand is not mailed.

The Yankee Trader, Huntington Pennysaver, Results Media, and Shopper's Guide South Jersey are all mailed. The Marketeer in Brooklyn and Staten Island is hand delivered.

Our shoppers that are mailed have been mailed in most cases since their inception and as a matter of customer demand. The Shopper's Guide was converted to the mail in January 1997 due to customer demand.

The Marketeer is hand delivered. Our preference would be to mail the product, but the current postal rates make it prohibitive from a cost perspective due to the weight of the publication and inserts.

AAPS/SCM-T1-7. You state at page 9, lines 13-14, that your average mailed book weighs 2.6 ounces. You state at lines 15-11 that you average 3-4 preprint inserts per book.

- (a) With the inserts, what is your average weight per book?
- (b) What percentage of your mailed pieces exceed the breakpoint?

- (a) Our records are not maintained in a manner that allows the average total weight to be readily calculated, but I would estimate that the average weight including inserts is near 4 ounces.
- (b) About half.

AAPS/SCM-T1-8. At page 10, you describe a range of services you provide to your advertising customers. Do you provide these services only for your customers whose ads are in your mailed product, or do you provide the same services to customers whose ads are in your hand-delivered product?

We offer these services to all customers.

AAPS/SCM-T1-9. Did you participate in or provide data to SAI for the performance of their study on alternate delivery? Have you received any information on the SAI study?

I am not aware of an SAI study on alternate delivery.

AAPS/SCM-T1-10. At page 14, lines 2-6, you state that there is no weekly or monthly saturation mail program serving New York City. Please describe briefly the quality of mail service in New York City and state whether, in your opinion, quality of service has anything to do with the alleged absence of a saturation mail program.

I am not aware that quality of service has anything to do with the absence of such saturation mail programs, but I do know that cost has a lot to do with it.

AAPS/SCM-T1-11. You state at page 14, lines 4-6, that the cost of private delivery in the New York City area "is dramatically lower than the use of mail." Please provide the data upon which you relied to support that statement.

My statement is based in part on my knowledge of our own privately delivered program. Although our cost data are proprietary, I can assure you that the cost of private delivery for this program is substantially below what it would cost us to mail the program at the current Postal Service pound rates.

AAPS/SCM-T1-12. Please provide the data upon which you relied to support your statement at page 14, lines 7-9, that private delivery offers a significant cost advantage in the Philadelphia market.

Information on Advo's private delivery operation in the Philadelphia market is contained in Docket MC95-1. There, witness Kamerschen stated that:

"The postage costs for a shared mail package range from a minimum of 12¢ to over 16¢, depending on weight. Our private delivery distribution costs range from less than 9¢ to roughly 11¢ per hand delivery package. The differential between our postal and private delivery distribution costs widens as piece weight increases." MC95-1 Transcript at p. 10171.

Kamerschen also stated that the lower cost of private delivery compared to the high postal pound rate enabled Advo to offer customers a blended rate. Other statements from newspaper industry sources, cited by Kamerschen, confirm that the postal rate structure is out of line with private delivery costs. See the MC95-1 Transcript at pp. 10161-62.

Our own experience is consistent with this. When we acquired the Shopper's Guide, which serves the South Jersey portion of the Philadelphia metropolitan market, it was hand delivered. The cost differential was very similar to that described by witness Kamerschen. We purposefully converted the program to mail delivery despite the higher mail distribution cost due to customer demand.

AAPS/SCM-T1-13. At page 14, lines 16-18, you blame the "high pound rate" for ECR mail for the "cost disadvantage of mail distribution" Please confirm that the pound rate does not affect pieces such as, for example, those described at page 9 of your testimony that contain 68 pages with an average weight of 2.6 ounces.

It depends how you look at it. If you are looking in isolation at one of our books that weighs 2.6 ounces and ignoring additional inserts, that item is not, by itself, directly affected by the pound rate. However, if looked at from the standpoint of the actual postage we pay to mail a 2.6 ounce book with its accompanying inserts, then the pound rate does have an effect.

AAPS/SCM-T1-14. You state at page 14 that you are not a postal costing expert but that you cannot imagine that postal handling costs above the breakpoint are purely weight-related or that the cost slope isn't nearly as steep as that contained in the current pound rate. Do you believe that the cost of delivering 14-ounce pieces exceeds the cost of delivering 4-ounce pieces?

For a 4-ounce saturation flat piece drop shipped to the destination delivery office, the current postage rate is 13.8 cents. For a 14-ounce piece, the rate is 48.3 cents. The 14-ounce piece is 3-1/2 times heavier than the 4-ounce piece, and is charged exactly 3-1/2 times the postage. I believe the 14-ounce piece may have a higher cost than the 4-ounce piece, but surely nowhere near 3-1/2 times as much.

Your example actually highlights the absurdity of the current high pound rate. At the current rates, a mailer is charged substantially more to mail a single 14-ounce piece than to mail three 4-ounce pieces (48.3¢ for a single 14-ounce piece v. 41.4¢ for three 4-ounce pieces).

The Postal Service's proposal would moderate this effect somewhat. At its proposed rates, a 14-ounce flat piece would still be charged 2.9-times more than a 4-ounce piece (39.95¢ v. 13.7¢). In essence, the proposed rate for the 14-ounce piece consists of a 3.2¢ piece charge and a 36.75¢ pound charge, so that the pound element represents 92% of the total postage -- compared to 100 percent under the current rates. I think that this still overstates the weight effect, but it is certainly a step in the right direction compared to the current 100% weight-related postage charge.

AAPS/SCM-T1-15. You testify at pages 14-15 that rates for mailed inserts must increase steeply with weight to cover the high pound-rate postage cost. What is the additional postage cost to your company of adding a "light-weight 1-4-page insert" to your typical 2.6-ounce book? How much would you typically charge the customer for your mailing of that 1-4-page insert?

The context of my statement was that: "Unlike preprint insert rates of our non-postal competitors that increase only moderately as preprint weight increases, the rates for mailed inserts must increase steeply with weight to cover the high linear pound rate postage cost." (pages 14-15). As I further explained (page 15, lines 3-8), this steep pound rate generally prices saturation mail out of the market for traditional preprints weighing over one ounce, while the lower proposed pound rate would "enable us to retain the preprint business we currently have and help us compete at the margin for some portion of the lighter-weight preprint business, particularly under 1-ounce."

The example of a "light-weight 1-4-page insert" which would typically weigh less than half an ounce represents the segment of the preprint market that we are largely confined to currently because of the steep pound rate. For a 4-page insert weighing 0.4 ounces, the incremental postage cost at the current pound rate is about \$14 per thousand pieces, compared to an incremental postage cost of \$69 per thousand for a two-ounce insert. The insert rates that we charge customers are proprietary, but must cover not only postage costs but also our production/insertion costs, sales commissions and related costs, variable overhead costs, and make some contribution to fixed overhead costs and profit.

AAPS/SCM-T1-l6. You testify at page 15, lines 13-15, that a reduction of the pound rate will encourage free newspapers and shoppers and perhaps newspaper TMC programs that are hand delivered to consider returning to the mail. Assuming that you believe that such return to the mail is a desirable result of a lowering of the pound rate, please explain why you believe that the movement of material from private delivery to the mail is a good thing.

I am not advocating movement of material from private to postal delivery just for the sake of expanding postal volumes (although I believe that would be beneficial to the postal system). My point is that the current rate structure with its excessive pound rate has unnecessarily driven profitable mail from the postal system, and that a more reasonable pound rate could help to recapture some of that lost volume.

The irony of the current high pound rate is that the more successful a saturation mail program becomes, the greater the incentive to convert that program to private delivery.

AAPS/SCM-T1-17. Please confirm that the lowest pound rate available to mailers of saturation advertising material has increased less rapidly than the CPI over the past ten years.

By "lowest pound rate available," I assume you are comparing the current pound rates for destination drop shipped mail, where the mailer undertakes the transportation expense in return for a worksharing discount, with the pre-1991 pound rates which did not offer drop ship discounts. I have not done the CPI comparison, but even if mathematically accurate, the comparison mixes apples and oranges. To earn the discounts, mailers must transport the mail at their own expense to destination postal facilities.

AAPS/SCM-T1-18. Please confirm that, based upon your experience, most saturation advertising mail has been walk sequenced by the mailer over the past ten years for service reasons even though, during some of that time, walk sequencing was not a prerequisite to obtaining the lowest available postal rate. If you cannot confirm, please provide your opinion on this subject.

Not confirmed. A Postal Service survey presented in Docket R90-1, reflecting volume data prior to the introduction of the walk sequence discount, showed that only about 40 percent of total saturation volume was delivery (or walk) sequenced. See USPS Library Reference F-199, Appendix 10, Table II-A Revised, Docket R90-1.

I suspect that this substantial volume of non-walk sequenced saturation mail came primarily from the many smaller-volume saturation mailers referred to in my response to your interrogatory 3. Even in the case of mailers that did walk sequence prior to the discounts, such walk-sequencing was not done solely for "service reasons." In many cases, mailers were strongly urged by local post offices to sequence their mail as a means of reducing postal handling costs.

AAPS/SCM-T1-19. (a) The Postal Service has proposed an average increase of 3.2% for ECR mail. Under the proposed rates that you support, by how much will the postage bill of Newport Media increase if the proposal is approved as filed (assuming volume remains constant)?


(b) If the proposed ECR rates would produce a decrease in Newport Media's postage bill, please state by how much that bill would be reduced annually, both in dollar terms and in terms of percentage of profits.

(a-b) Based on our current volume profile, and under your assumed constraint that the lower proposed pound rate would result in no increase in either pieces or weight mailed, our annual postage bill would hypothetically decrease by about 0.9 percent, or roughly \$90,000. Our profits are proprietary information.

However, in the real world, I fully expect that our total postage bill will increase, probably significantly, if the USPS proposed rates were adopted. This is because the lower pound rate will enable us to generate new inserts that will pay additional incremental postage at the pound rate. For example, every extra one-tenth of an ounce in average weight added to our volume will produce new incremental postage in excess of \$100,000 annually. In addition, the lower pound rate will enhance our ability and desire to expand geographically, generating new volumes and postage.

DECLARATION

I, Harry J. Buckel, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


HARRY J. BUCKEL

Dated: 2/8/95